



City of Chula Vista

Quarterly Financial Report – General Fund

Third Quarter Ending March 31, 2008

April 22, 2008

OVERVIEW

This financial report summarizes the City's General Fund financial position for the fiscal year through March 31, 2008. The purpose of this report is to provide the City Council, management and the citizens of Chula Vista an update on the City's fiscal status based on the most recent financial information available.

ECONOMIC UPDATE

In its first quarterly report of 2008, released March 11, the UCLA Anderson Forecast remains confident that the national economy was not in a recession through January 2008 and continues to forecast weak growth but no official recession in 2008.

As in their recent forecasts, UCLA Anderson Forecast economists shed a negative light on the real estate sector, with problems there continuing to be a drag on the economy as a whole, particularly as the home mortgage crisis becomes a credit crisis.

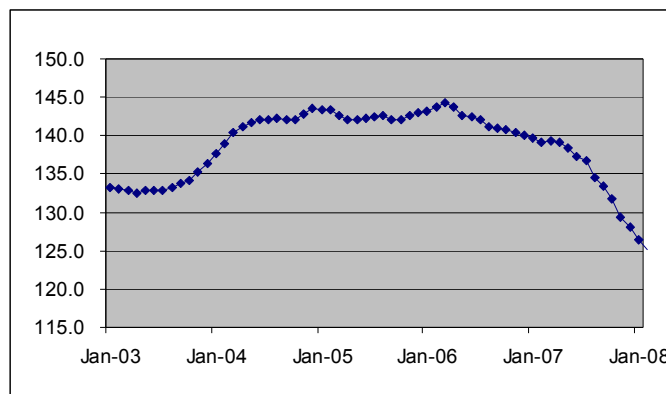
In California, the economic outlook continues to mirror that of the nation, despite questions by some regarding the possibility of a state recession in the absence of a national recession. The Anderson Forecast concludes that California is too closely tied to the nation for such an occurrence, and the outlook appears much the same — slow growth as the fallout from the real estate sector slowly works its way out of the economy.

The University of San Diego's Index of Leading Economic Indicators for San Diego County fell 1.1 percent in February after falling 1.2 percent in January. The biggest contributors to the decline were sharp drops in consumer confidence and help wanted advertising. Down more moderately were building permits, local stock prices, and the outlook for the national economy. The only positive component was initial claims for unemployment insurance, which reflects a large drop in claims for the month.

With February's decrease, the USD Index has now fallen in 22 of the last 23 months, with the declines in the last five months being relatively severe. While there has not been a massive loss of jobs as was the case in the early 1990s, job growth has come to a virtual standstill, with only 300 more jobs countywide in

February compared to the year before. The weak housing market remains the culprit, with more than 13,000 jobs lost in real estate-related sectors compared to a year ago. The continued sharp declines in the Leading Indicators indicate no turnaround in sight at the current time.

San Diego Index of Leading Economic Indicators



GENERAL FUND SUMMARY

City Council Policy No 220-03 recommends the City maintain at least an 8% reserve level. As of June 30, 2007, the General Fund reserve level was 6.3%.

General Fund Reserve	Amended	
	Budget	Projected
Reserves - July 1, 2007	\$ 10.4	\$ 10.4
Projected Revenues & Transfers In	165.5	150.4
Expenditures & Transfers Out	(165.9)	(153.3)
Projected Deficit	(0.4)	(2.9)
Fund Balance as of June 30, 2008	\$ 10.0	\$ 7.5
Percentage of Operating Budget		4.8%

For fiscal year 2007-08, due to the continued decline in the economy and housing market a General Fund deficit of \$2.9 million is currently projected compared to a second quarter estimate of \$3.5 million. A projected revenue shortfall of \$15.1 million partially offset by estimated expenditure savings of \$12.6 million account for \$2.5 million of the deficit. The remaining amount is due to mid-year budget amendments of \$1.0 million with offsetting revenues of \$0.6 million resulting in an additional impact of \$0.4 million.

In the second quarter, the City Manager authorized a citywide administrative freeze that was implemented on February 11th. The freeze was placed on all discretionary spending such as travel, conferences, vehicle purchases, reference materials, contractual services etc. Based on current spending levels, savings from the administrative freeze could generate additional savings in the current fiscal year.

Revenues

In the first quarter, several discretionary revenues were adjusted downward by \$7.6 million. In the second quarter property and sales tax were adjusted down by \$2.1 million. Per the most recent data available further adjustments to discretionary revenues are not necessary.

Discretionary Revenues	Adjusted Budget	3rd Quarter Projected	Delta
Sales Tax	\$ 29,836	\$ 29,096	(\$740)
Property Tax	30,250	29,085	(1,165)
Motor Vehicle License Fee	19,651	19,651	0
Franchise Fees	8,813	8,813	0
Utility Users Tax	7,052	7,052	0
Transient Occupancy Tax	2,672	2,672	0
Real Property Transfer Tax	1,000	750	(250)
Total	\$ 99,275	\$ 97,119	(\$2,155)

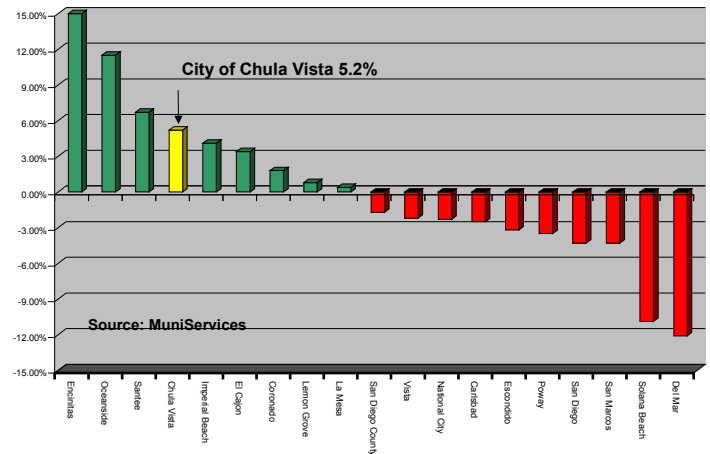
In the chart below it can be seen that departmental programmatic revenues are being affected by continued declines in development related revenues, grant reductions, capital improvement project revenues and other fees for city services.

Revenue Category	Adjusted Budget	3rd Quarter Projected	Delta
Development Revenue	\$ 12,502	\$ 10,063	(\$2,439)
Licenses and Permits	869	822	(46)
Fine, Forfeitures & Penalties	1,771	1,347	(424)
Police Grants	1,575	1,638	63
Other Agency Revenue	3,423	4,069	646
Charges for Services	6,928	6,750	(177)
Interfund Reimbursements	11,919	11,326	(592)
Transfers From Other Funds	10,487	10,529	42
Total	\$ 49,472	\$ 46,545	(\$2,928)

Sales Tax. City staff met with the City's sales tax consultant, MuniServices, to review sales tax revenues though the end of calendar year 2007. Per the most recent reports, jurisdictions across California have

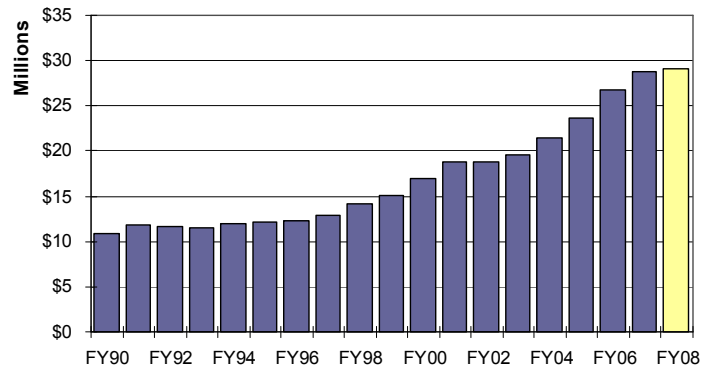
experienced slow downs or even declines in sales tax revenue during the fourth quarter of 2007.

The City experienced same quarter over quarter growth of 5.2% compared to countywide change of -1.7%. The percentage change in other areas of California were 0.1% statewide, 0.5% in Northern California and -0.2% in Southern California.



The above chart reflects Chula Vista's sales tax with that of other jurisdictions in the County during the fourth quarter of the calendar year.

Sales Tax



Although the sales tax numbers are encouraging the projections will remain at the same levels as identified in the second quarter report in order to maintain a conservative projection.

Property Taxes. Property tax is the City's second largest revenue source, representing 18.3% of the total General Fund revenue in fiscal year 2006-07. The City's assessed value has increased at historical rates over the past seven years with the largest percent increase of

20% occurring in fiscal year 2005-06. Based on the June 2007 County Assessor's annual valuation report, the assessed values in Chula Vista grew by 14% resulting in a corresponding increase in the property tax roll for fiscal year 2007-08.

Property Tax Projection Is Reduced By \$1.2 Million

Since the Assessor's report was issued, there has been a significant increase in the number of foreclosures in Chula Vista from the prior year. As reported in the second quarter report, per DataQuick

Information Systems, notices of default (indicates the homeowner is 90 days late on their mortgage payment) increased from 1,018 in 2006 to 2,617 in 2007 an increase of 157%. Trustee sales (loss of home) went from 194 in 2006 to 1,060 in 2007 an increase of 446%. This is primarily due to the subprime mortgage issue that has resulted in the tightening of mortgage lending practices.

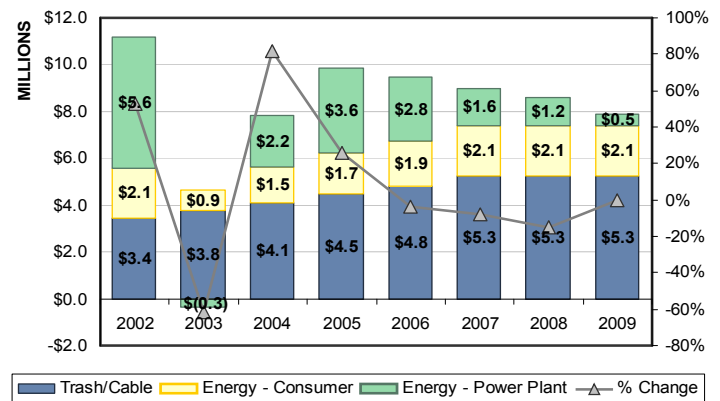
Foreclosures are having an additional negative impact on property tax revenues in the city by depressing housing values. The drop in assessed values has triggered Proposition 8, a constitutional amendment passed in 1978 that allows a temporary reduction in assessed value when real property suffers a "decline-in-value". Therefore, as assessed values fall, homeowners can apply for a reassessment of their homes which would lead to a reduction of property taxes based on the lower assessment.

Anticipating some level of impact to the city, the fiscal year 2007-08 property tax projections were adjusted in the second quarter report from the reported 14% increase in assessed value to 10%. The adjustment resulted in a reduction in projected property tax revenues of \$1.2 million. Property tax projections will continue to be conservative in fiscal year 2008-09 based on the assumption that the housing market will not recover during this period.

Motor Vehicle License Fee (VLF). With the State Budget Act of 2004, the allocation of VLF revenues to cities and counties was substantially changed. For FY05-06 and beyond, the majority of VLF revenues for each city will grow essentially in proportion to the growth in the change in gross assessed valuation.

Franchise Fees. An analysis of prior fiscal year Franchise Fees revealed that revenues were down by \$1.2 million due to the reduced operation of the South Bay power plant. As a result, revenues for the current

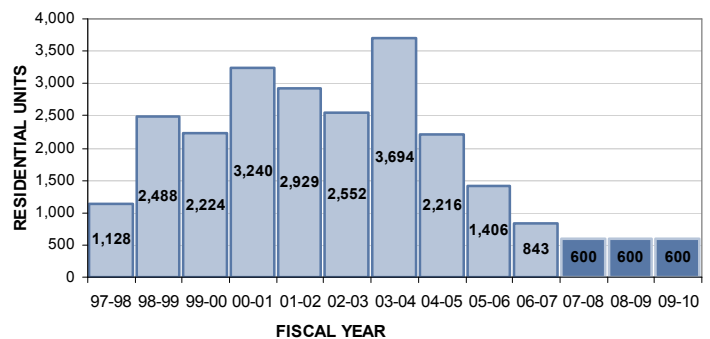
fiscal year were revised downward by \$1.6 million in the first quarter report.



Utility Users Tax (UUT). Revenues are projected to come in higher than budget by \$368,877 due to higher actual revenues realized in the prior fiscal year and were adjusted in the first quarter report.

Real Property Transfer Tax. This tax is based on the sale of real property. A revision in the projected tax is warranted due to the current slowdown in the housing market. The tax is projected to be \$0.8 million which is a significant reduction in revenue from the all time high of \$2.4 million in fiscal year 2005.

Plan Check Fees. The first quarter projection of \$1.7 million reflects the change in the projected number of building permits to be issued from 1,200 to 600 for the current fiscal year.



Building Permits. The first quarter projection of \$2.5 million reflects the revised projected number of building permits to be issued from 1,200 to 600 for the current fiscal year. Through the end of the third quarter 374 permits have been issued.

Other Development Related Revenues. Development related revenues have dropped slightly from the second

quarter (\$500,000) due to the continued deterioration of the housing market.

Interfund Transfers/Reimbursements. Interfund Transfers and reimbursements are being reduced due to revised gas tax projections, loss of library grant funds, and reduced staff time reimbursements.

Expenditures

The General Fund's Amended Budget reflects the Council's adopted budget and all mid-year appropriations (\$1,015,107) approved by City Council and prior year encumbrances (\$880,631). The Adjusted Budget reflects the approved mid-year budget reduction plan of \$9.2 million.

As reflected in the chart Departmental operating costs are at 69.65% of Adjusted Budget at the close of the third quarter. This is lower in comparison to the prior year third quarter expenditures of 72.5%.

Expenditures	Amended Budget	Adjusted Budget	YTD Actuals	Percentage Expended
City Council	\$ 1,394	\$ 1,312	\$ 930	70.89%
Boards and Commissions	15	15	7	45.50%
City Clerk	1,297	1,209	753	62.25%
City Attorney	2,670	2,440	1,587	65.06%
Administration	3,469	3,229	2,270	70.31%
Information Technology	4,178	3,979	2,777	69.79%
Human Resources	4,998	4,698	3,086	65.68%
Finance	3,184	2,932	2,143	73.07%
Non Departmental	4,038	4,038	3,533	87.48%
General Services	11,172	9,916	7,399	74.62%
Community Development	1,932	1,794	1,119	62.38%
Planning and Building	9,752	9,664	6,471	66.96%
Engineering	6,698	5,753	4,170	72.49%
Public Works	18,103	16,153	11,659	72.18%
Police	50,794	49,892	34,210	68.57%
Fire	25,019	23,909	16,710	69.89%
Recreation	6,675	6,118	4,030	65.87%
Library	9,963	9,203	6,038	65.61%
Nature Center	1,260	1,198	777	64.85%
Total General Fund	\$166,612	\$157,454	\$109,669	69.65%

Budget Amendments	Revenue	Expenditure	Impact
Animal Care microchipping program	10,000	10,000	-
CFD 12-M funds for landscape maintenance	63,495	-	63,495
Donation to Animal Care Facility from TAVA	2,522	2,522	-
Scripps Health Community benefit grant	39,800	39,800	-
Stephen & Mary Birch donation to Fire Dept	28,515	28,515	-
California Division of Recycling grant	5,000	-	5,000
Office of Traffic Safety DUI Enforcement grant	160,600	160,600	-
First Quarter Budget Amendments	\$ 309,932	\$ 241,437	\$ 68,495
Grant from Kaiser Foundation Hospitals for Kids	19,115	19,115	-
Emergency slope repair along the SR-125	-	76,645	(76,645)
Office of Traffic Safety DUI Enforcement grant	120,362	120,362	-
Second Quarter Budget Amendments	\$139,477	\$ 216,122	\$ (76,645)
Signature verification for charter amendment	-	20,000	(20,000)
Signature verification for initiative petition	-	12,000	(12,000)
Cost for placement of initiative on ballot	-	54,000	(54,000)
Energy conservation grant	78,502	49,321	29,181
Fire overtime reimbursement and donation	87,227	87,227	-
Costs for Public Liability Claims	-	335,000	(335,000)
Third Quarter Budget Amendments	\$165,729	\$ 557,548	\$ (391,819)
Year-to-Date Budget Amendments	\$615,138	\$1,015,107	\$ (399,969)

Budget Transfers

There was one administrative budget transfer of \$1,500 during the third quarter. The transfer from Administration Services and Supplies budget category to the Utilities category transferred some cell phone budget to the landlines budget.

Mid-Year Budget Amendments

Mid-year appropriations during the quarter totaled \$557,548 with offsetting revenues of \$165,729 for a net impact of (\$391,819). The majority of the appropriations were for ballot measure expenditures and for an increase in public liability claim expenditures. Mid-year budget amendments for the fiscal year have a net impact to the General Fund of (\$399,969).